

ELLIOTT & ELLIOTT, P.A.  
ATTORNEYS AT LAW  
721 OLIVE STREET  
COLUMBIA, SOUTH CAROLINA 29205  
[selliott@elliottlaw.us](mailto:selliott@elliottlaw.us)

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SCOTT ELLIOTT

TELEPHONE (803) 771-0555  
FACSIMILE (803) 771-8010

March 15, 2006

HAND DELIVERY

Mr. Charles L.A. Terreni  
Chief Clerk of the Commission  
SC Public Service Commission  
P. O. Drawer 11649  
Columbia, SC 29211

RECEIVED  
2006 MAR 15 PM 4:28  
SC PUBLIC SERVICE  
COMMISSION

RE: South Carolina Electric & Gas Company Annual Review of Base  
Rates for Fuel Costs  
Docket No. 2006-2-E

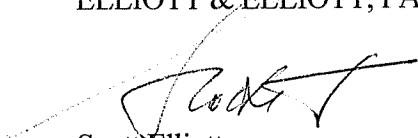
Dear Mr. Terreni:

On behalf of South Carolina Energy Users Committee, I enclose herewith for filing twenty-six (26) copies of the direct testimony of Kevin W. O'Donnell together with a Certificate of Service. Please return a clocked copy of the testimony to me via my courier. By copy of this letter I am serving all counsel of record.

Thank you in advance for your assistance in this matter. If you or counsel for the parties have questions, please do not hesitate to contact me.

Sincerely,

ELLIOTT & ELLIOTT, PA

  
Scott Elliott

SE/jcl

Enclosures

cc: All parties of record w/enc.

RETURN DATE: OK D. Duke  
SERVICE: OK D. Duke

ORIGINAL

State of South Carolina

Before the

South Carolina Public Service Commission

In the Matter of: )  
Application of South Carolina )  
Electric & Gas (SCE&G) )  
Carolinas, Inc. for an Adjustment of its )  
Rates and Charges )

Docket No. 2006-2-E

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Prepared Direct Testimony

of

Kevin W. O'Donnell, CFA

On Behalf of the

South Carolina Energy Users Committee

March 15, 2006

1    **Q.    PLEASE STATE YOUR NAME, POSITION, AND BUSINESS ADDRESS**  
2       **FOR THE RECORD.**

3    A.    My name is Kevin W. O'Donnell. I am President of Nova Energy Consultants,  
4           Inc. My business address is 1350 Maynard Rd., Suite 101, Cary, North Carolina  
5           27511.

6

7    **Q.    ON WHOSE BEHALF ARE YOU PRESENTING TESTIMONY IN THIS**  
8       **PROCEEDING?**

9    A.    I am testifying on behalf of the South Carolina Energy Users Committee  
10           (SCEUC), an association of manufacturers active in many proceedings before the  
11           South Carolina Public Service Commission (the PSC or the Commission). Many  
12           of SCEUC's members take service from South Carolina Electric & Gas (SCE&G).

13

14   **Q.    PLEASE OUTLINE YOUR EDUCATIONAL BACKGROUND AND**  
15       **RELEVANT EMPLOYMENT EXPERIENCE.**

16   A.    I received a B.S. degree in Civil Engineering - Construction Option from North  
17           Carolina State University in May of 1982 and a Masters of Business  
18           Administration in Finance from Florida State University in August of 1984.

19

20           In September of 1984, I joined the Public Staff of the North Carolina Utilities  
21           Commission as a Public Utilities Engineer in the Natural Gas Division. In  
22           December of 1984, I transferred to the Public Staff's Economic Research Division  
23           and held the position of Public Utility Financial Analyst. In September of 1991, I  
24           joined Booth & Associates, Inc., a Raleigh, North Carolina, based electrical  
25           engineering firm, as a Senior Financial Analyst. I stayed in this position until  
26           June 1994, when I accepted employment as the Director of Retail Rates for the  
27           North Carolina Electric Membership Corporation. In January 1995, I formed  
28           Nova Utility Services, Inc., an energy consulting firm. In May of 1999, I changed  
29           the name of Nova Utility Services, Inc. to Nova Energy Consultants, Inc. I am a  
30           Chartered Financial Analyst (CFA) and a member of the Association of  
31           Investment Management and Research.

1  
2 I am also a senior financial analyst with MAKROD Investment Associates, which  
3 is a money management firm based in Verona, New Jersey.  
4

5 I have testified before the North Carolina Utilities Commission in the following  
6 general rate case proceedings: Public Service Company of North Carolina, Inc.  
7 (Docket No. G-5, Sub 200, Sub 207, Sub 246, Sub 327, and Sub 386); Piedmont  
8 Natural Gas Company (Docket No. G-9, Sub 251 and Sub 278); General  
9 Telephone of the South (Docket No. P-19, Sub 207); North Carolina Power  
10 (Docket No. E-22, Sub 314); Piedmont Natural Gas Company (Docket No. E-7,  
11 Sub 487); Pennsylvania & Southern Gas Company (Docket No. G-3, Sub 186);  
12 and in several water company rate increase proceedings. I also submitted pre-filed  
13 testimony and/or assisted in the settlement process in Docket Nos. G-9, Sub 378,  
14 Sub 382, Sub 428 and Sub 461, which were general rate cases involving Piedmont  
15 Natural Gas Company; in Docket No. G-21, Sub 334, North Carolina Natural  
16 Gas's most recent general rate case; in Docket No. G-5, Sub 356, Public Service  
17 of North Carolina's 1995 general rate case; and in Docket No. G-39, Sub 0,  
18 Cardinal Extension Company's rate case. Furthermore, I testified in the 1995 fuel  
19 adjustment proceeding for Piedmont Natural Gas Company (Docket No. E-2, Sub  
20 680) and submitted pre-filed testimony in Docket No. E-7, Sub 559, which was  
21 Piedmont Natural Gas Company's 1995 fuel adjustment proceeding. I also  
22 submitted pre-filed testimony and testified in Duke's 2001 fuel adjustment  
23 proceeding, which was Docket No. E-7, Sub 685.

24  
25 Furthermore, I testified in Docket No. G-21, Sub 306 and 307, in which North  
26 Carolina Natural Gas Corporation petitioned the Commission to establish a  
27 natural gas expansion fund. I also submitted testimony in the Commission's 1998  
28 study of natural gas transportation rates that was part of Docket No. G-5, Sub 386,  
29 which was the 1998 general rate case of Public Service Company of North  
30 Carolina. In September of 1999, I testified in Docket Nos. G-5, Sub 400 and G-  
31 43, which was the merger case of Public Service Company of North Carolina and

1 SCANA Corp. I also submitted testimony and stood cross-examination in the  
2 holding company application of NUI Corporation, a utility holding company  
3 located in New Jersey, which was NCUC Docket No. G-3, Sub 224, as well as  
4 NUI's merger application with Virginia Gas Company, which was Docket No. G-  
5 3, Sub 232. I also submitted pre-filed testimony and stood cross-examination in  
6 Docket No. G-3, Sub 235, which involved a tariff change request by NUI  
7 Corporation. I testified in another holding company application in Docket No. E-  
8 2, Sub 753; G-21, Sub 387; and P-708, Sub 5 which was the holding company  
9 application of Piedmont Natural Gas. In June of 2001, I submitted testimony and  
10 stood cross-examination in Docket No. E-2, Sub 778, which was PEC's  
11 application to transfer Certificates of Public Convenience and Necessity (CPCN)  
12 from two of the Company's generating units to its non-regulated sister company,  
13 Progress Energy Ventures. In November of 2001, I testified in Duke Energy's  
14 restructuring application, which was Docket No. E-7, Sub 694. In January 2002, I  
15 presented testimony in the merger application of Duke Energy Corporation and  
16 Westcoast Energy. In April of 2003, I submitted testimony in Dockets Nos. G-9,  
17 Sub 470, Sub 430, and E-2, Sub 825, which was the merger application of  
18 Piedmont Natural Gas and North Carolina Natural Gas. In May of 2003, I  
19 submitted testimony in the general rate case of Cardinal Pipeline Company, which  
20 was Docket No. G-39, Sub 4. In July 2003, I filed testimony in Docket No. E-2,  
21 Sub 833, which was PEC's 2003 fuel case proceeding.

22  
23 In August of 2002, I submitted pre-filed testimony and stood cross-examination  
24 before the South Carolina Public Service Commission in Docket No. 2002-63-G,  
25 which was Piedmont's 2002 general rate case. In October of 2004, I submitted  
26 pre-filed testimony and stood cross-examination in the general rate case of South  
27 Carolina Electric & Gas. In March 2005, I prepared pre-filed testimony and  
28 assisted in the settlement involving the fuel application proceeding of South  
29 Carolina Electric & Gas. In May 2005, I prepared pre-filed testimony and assisted  
30 in the settlement in the Progress Energy fuel case in South Carolina.

31

1 In May of 1996, I testified before the U.S. House of Representatives Committee  
2 on Commerce and Subcommittee on Energy and Power concerning competition  
3 within the electric utility industry.

4  
5 I am also very active in the wholesale power markets as my firm, Nova Energy  
6 Consultants, Inc., is the electrical consultant for several municipalities in North  
7 Carolina that purchase all of their power supplies on the open wholesale market. I  
8 have also worked with North Carolina and South Carolina municipalities in  
9 presenting comments to the Federal Energy Regulatory Commission regarding the  
10 opening of the wholesale power markets in the Carolinas.

11  
12 I have also published the following articles: "Municipal Aggregation: The Future  
13 is Today", *Public Utilities Fortnightly*, October 1, 1995; "Small Town, Big Price  
14 Cuts", *Energy Buyers Guide*, January 1, 1997; and "Worth the Wait, But Still at  
15 Risk", *Public Utilities Fortnightly*, May 1, 2000. All of these articles dealt with  
16 my firm's experience in working with small towns that purchase their power  
17 supplies in the open wholesale power markets.

18  
19 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**  
20 **PROCEEDING?**

21 A. The purpose of my testimony is to review the requested fuel increase sought by  
22 South Carolina Electric & Gas (SCE&G) in this case.

23  
24 **Q. HOW IS YOUR TESTIMONY IN THIS CASE STRUCTURED?**

25 A. My testimony in this case is structured as follows:

- 26  
27 I. Analysis of SCE&G Fuel Request  
28 II. Natural Gas Hedging Activities of SCE&G  
29 III. Phase-In of Underrecovery Balance

## I. Analysis of SCE&G Fuel Request

**Q. MR. O'DONNELL, CAN YOU PLEASE DESCRIBE THE RATE INCREASE THAT SCE&G IS REQUESTING IN THIS CASE?**

A. Yes. At the current time, rates for all SCE&G retail consumers reflect a charge of 2.256 cents per kWh for the recovery of all fuel-related charges incurred by the Company. In the current proceeding, the Company is seeking a fuel charge of 2.601 cents per kWh to recover anticipated fuel costs in the coming test year as well as recovery of past under-collections. This increase in fuel expenses reflects a 15.3% total increase in the cost of the fuel component in SCE&G rates.

**Q. CAN YOU PLEASE SEPARATE THIS RATE INCREASE TO REFLECT THE INCREASE REQUESTED FOR FUTURE FUEL EXPENSES VERSUS THE RATE INCREASE REQUESTED TO REIMBURSE THE COMPANY FOR ITS UNDER-RECOVERY OF PAST FUEL EXPENSES?**

A. Yes. In the coming test year, which runs from May, 2006 through April, 2007, SCE&G expects to incur fuel expenses of slightly more than \$603 million. The company also expects to sell, on a total system basis, close to 24 million MWhs of electricity. When these costs are combined, the company expects its total average cost of fuel to be 2.515 cents per kWh. This total charge must be reduced by a factor of .085 cents per kWh to compensate consumers for the average cost of fixed gas transportation charges, which the Commission decided should be recovered in a general rate case per PSC Order No. 2003-38. When these two factors are combined, the net projected fuel cost for the 2006/2007 test year will be 2.430 cents per kWh.

The Company is also seeking recovery of more than \$38 million to pay for the underrecovery of past fuel expenses.

1    **Q.    HOW DOES THIS INCREASE AFFECT THE TYPICAL RESIDENTIAL,**  
2           **COMMERCIAL, AND INDUSTRIAL CONSUMERS TAKING SERVICE**  
3           **FROM SCE&G?**

4    A.    If the Commission approves the Company's entire request, rates will increase in  
5           the following manner: residential consumers, a 3.9% increase; commercial  
6           consumers, a 4.8% increase, and industrial consumers, a 7.9% increase.



1       **II.     Coal and Natural Gas Procurement Activities of SCE&G**

2  
3       **Q.     MR. O'DONNELL, HAVE YOU REVIEWED THE PREFILED**  
4       **TESTIMONY OF THE COMPANY WITNESSES IN THIS**  
5       **PROCEEDING?**

6       A.     Yes, I have.

7  
8       **Q.     PLEASE BRIEFLY DESCRIBE YOUR UNDERSTANDING OF THE**  
9       **MANNER IN WHICH SCE&G PURCHASES COAL.**

10      A.     According to the prefiled testimony of Company Witness Gerhard Haimberger,  
11             SCE&G procures its coal needs with a combination of long-term (more than one  
12             year) and spot purchase (less than one year) contracts. The apparent goal of  
13             SCE&G is for long-term purchases to represent approximately 75% to 80% of the  
14             projected system demand. The majority of the coal contracts into which the  
15             Company enters are for periods ranging from 2 years to 4 years with some options  
16             to renew. Some of the coal contracts have fixed pricing while other agreements  
17             have predetermined price adjustments. As Mr. Haimberger states on page 3 of his  
18             testimony:

19  
20                     Throughout the years, SCE&G has been successful in leveraging  
21                     long-term and short-term coal purchases to achieve reasonably low  
22                     purchase prices while assuring the reliability of coal supplies  
23                     necessary to support system needs.  
24

25             Based upon Mr. Haimberger's testimony, it appears that SCE&G is attempting to  
26             minimize cost increases to consumers by essentially hedging its coal purchases.  
27             This hedging strategy, as noted above, uses short-term and long-term contracts  
28             with a mix of fixed priced contracts and adjustable price contracts.

29  
30       **Q.     HOW DOES SCE&G PROCURE NATURAL GAS FOR ITS GAS FIRED**  
31       **GENERATION FLEET?**

1 A. Ms. Rose Jackson, who is the General Manager Gas Supply and Capacity  
2 Management for SCE&G, submitted prefiled testimony in which she outlined the  
3 steps in which the Company purchases its natural gas supplies. According to her  
4 testimony, SCE&G essentially purchases natural gas on an "as-needed" basis that  
5 is driven by the needs of the electric generation group. Ms. Jackson summarizes  
6 SCE&G's gas procurement activities on page 4 of her testimony when she states:

7

8           Once the decision is made that supplying Jasper and/or Urquhart  
9           with natural gas is the most economical choice for providing  
10          reliable power to our customers, my department is directed to  
11          purchase gas supplies for delivery for a stated term at current  
12          market prices.

13

14 Ms. Jackson goes on to state that most of the gas procurement decisions for  
15 SCE&G's Urquhart and Jasper Plants are for short periods of time such as a day, a  
16 weekend, or a holiday period.

17

18 In her testimony, Ms. Jackson also acknowledges the tremendous volatility that  
19 occurred in the natural gas industry over the past year and that "all of us in the  
20 energy business must be alert to the prospect that gas prices may be extremely  
21 volatile during periods of unusual weather, growing demand, and supply  
22 constraints." (page 7, lines 1-3).

23

24 **Q. DO YOU AGREE WITH MS. JACKSON THAT THE NATURAL GAS**  
25 **MARKETS HAVE BEEN EXTREMELY VOLATILE IN THE PAST**  
26 **YEAR?**

27 A. Yes. Natural gas prices were trending upward even before Hurricanes Rita and  
28 Katrina hit the Gulf Coast of the United States. Since those natural disasters, the  
29 cost of natural gas has swung from roughly \$6.50 per dekatherm to over \$20 per  
30 dekatherm and are now back below \$7.00 per dekatherm, with winter forward  
31 prices rising back to over \$10 per dekatherm.

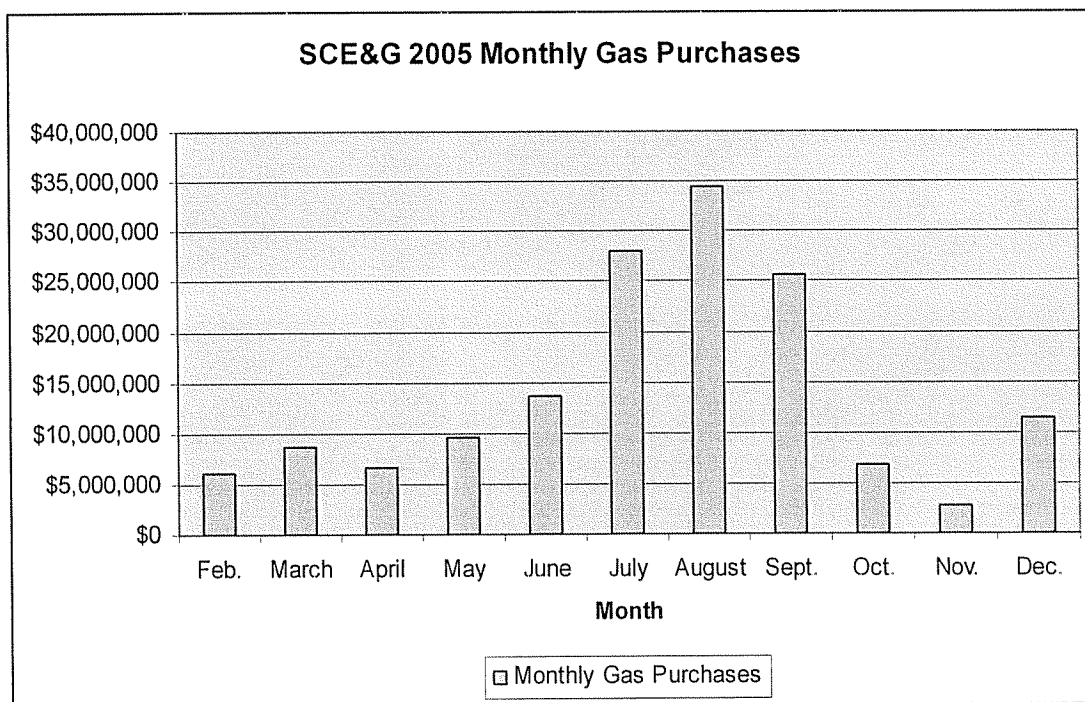
32

1 **Q. DO YOU BELIEVE THAT SCE&G HAS DONE ALL IN ITS POWER TO**  
2 **MITIGATE NATURAL GAS PRICE VOLATILITY?**

3 A. No. As Ms. Jackson admits in her testimony, SCE&G purchases natural gas on  
4 what amounts to a daily basis at spot market prices. Hence, the Company does not  
5 hedge its natural gas. In my opinion, the failure to hedge natural gas is in direct  
6 conflict with the Company's concerted efforts to hedge its coal purchases.

7  
8 I fully understand Ms. Jackson's points about the need to purchase natural gas on  
9 a daily basis, but my review of the Company's gas procurement has revealed a  
10 heavy reliance on natural gas for electric generation purposes. In fact, from  
11 February 2005 through December 2005, SCE&G purchased close to \$154 million  
12 in natural gas. Below is a graph that shows the Company's natural gas  
13 procurements during this 11-month period.

14  
15 Table 1



16  
17  
18 As is very much expected, SCE&G purchases a large amount of natural gas in the  
19 summer months when it uses its gas-generation fleet to meet the peak demand

1 needs of its customers. In my opinion, the above graph depicts exactly what I  
2 would have expected from SCE&G in that the utility uses its natural gas units as  
3 peakers, whereas it employs its coal and nuclear units for its baseload generation  
4 needs.

5  
6 **Q. HAVE YOU EXAMINED SCE&G'S NATURAL GAS PROCUREMENT**  
7 **ACTIVITIES FROM PREVIOUS YEARS TO SEE IF THE UTILITY**  
8 **FOLLOWED THIS SAME PATTERN OF PROCURING THE MAJORITY**  
9 **OF ITS NATURAL GAS FOR MEETING THE COMPANY'S SUMMER**  
10 **PEAKING NEEDS?**

11 A. Not yet. SCEUC has a data request outstanding to the Company in which we  
12 have requested data that will allow me to analyze the trend in SCE&G's gas  
13 procurement activities. However, I will be extremely surprised if the procurement  
14 patterns for previous years deviate much from the pattern exhibited in Table 1.

15  
16 I am quite confident that SCE&G's resource planning departments know well in  
17 advance when the utility will need large amounts of natural gas. For example, this  
18 past year showed that the Company used large quantities of natural gas in July  
19 and August. Hence, it is logical to expect that the Company will burn similarly  
20 large amounts of natural gas in the summer of 2006. Therefore, in my opinion, the  
21 Company should be actively engaged in a natural gas hedging program that could  
22 very well protect consumers from increased spikes in the cost of natural gas used  
23 for electric generation purposes.

24  
25 **Q. ARE YOU RECOMMENDING THAT THE COMMISSION DISALLOW**  
26 **ANY OF SCE&G'S REQUEST TO RECOVER ITS UNDERRECOVERY**  
27 **OF NATURAL GAS EXPENSES?**

28 A. At this point in my analysis, I am not herein recommending any disallowance of  
29 SCE&G's fuel costs. Nevertheless, the analysis that I have completed to date  
30 reveals that SCE&G does purchase natural gas on a predictable basis and that the  
31 Company's customers may benefit from the Company hedging some of its natural

1 gas procurement. As a result, I recommend that this Commission immediately  
2 open a generic docket to explore the possibility of all electric utilities under its  
3 jurisdiction establishing a hedging program for the procurement of natural gas  
4 supplies. In my view, the creation of such a natural gas hedging program might  
5 very well prevent large rate increases due to unexpected natural disasters such as  
6 hurricanes in the Gulf of Mexico. The potential benefit of a natural gas hedging  
7 program merits an investigation into the creation of such a program.  
8

**III. Phase-In of Underrecovery Balance and Reporting  
Recommendation**

**Q. IN YOUR OPINION, WHAT WILL BE THE ECONOMIC IMPACT OF  
THE COMMISSION GRANTING THIS RATE INCREASE REQUEST?**

A. In this case, SCE&G is seeking to raise industrial rates by roughly 7% to 8%. For those large industrials with high load factors, the increase may actually be higher than 8%. This electric rate increase coupled with the highly volatile price of natural gas has hit manufacturers quite hard in the past two years. As this Commission is aware, and as I have pointed out several times in the past, the number of manufacturing jobs in South Carolina continues to decline due to a variety of reasons. My fear is that if the Commission grants the full increase requested by SCE&G in this case, more manufacturers in our state will close their doors thereby putting more hardworking South Carolinians out of a job.

**Q. DO YOU HAVE A RECOMMENDATION TO THE COMMISSION THAT  
WILL LESSEN THE IMPACT OF THE SCE&G RATE INCREASE?**

A. Last year, the Commission ordered SCE&G to amortize an amount equal to its undercollection of approximately \$38 million over a period of two years. I believe that to minimize the impact of the rate increase on SCE&G's customers, the Commission should amortize, over a period of two years, an amount equal to the undercollection requested by SCE&G in this proceeding. The statement below is taken from the testimony of ORS Witness A.R. Watts from SCE&G's 2005 fuel proceeding in which the parties agreed to the two-year amortization:

While ORS recognizes that S.C. Code Ann. §58-27-865(B) indicates that any under recovery should be recovered during the next twelve months, ORS also recognizes that the Commission previously allowed an amortization of an under recovery over a two year period. See Commission Order No. 2001-397 issued in Docket No. 2001-2-E, SCE&G – Annual Review of Base Rates for Fuel Costs. In addition, ORS is charged with the duty to represent the public interest of South Carolina pursuant to S.C. Code §58-4-

1 10(B) (added by Act 175), and ORS believes such a two year  
2 levelizing period would serve the public interest. S.C. Code §58-  
3 4-10(B)(1) through (3) reads in parts as follows:  
4

5 “...’public interest’ means a balancing of the following:  
6

- 7 (1) concerns of the using and consuming public with respect to public  
8 utility services, regardless of the class of customer;  
9 (2) economic development and job attraction and retention in South  
10 Carolina; and  
11 (3) preservation of the financial integrity of the State’s public utilities  
12 and continued investment in and maintenance of utility facilities so  
13 as to provide reliable and high quality utility services.”  
14

15 This two year levelization period would balance concerns of the  
16 using public while preserving the financial integrity of the  
17 Company. ORS also believes a two year levelization period would  
18 not inhibit economic development.  
19

20 ORS also recommends that the first dollars recovered in the  
21 succeeding twelve months beginning May 2005 be applied to the  
22 under recovery so that in the next fuel proceeding for the Company  
23 any under recovery will be for the period May 2005 to May 2006.  
24 This will serve to protect the integrity of the statutory scheme as  
25 well as the financial integrity of the Company.  
26

27 For the reasons set for above, ORS recommends that an amount  
28 equal to the under recovery be levelized over a two year period.  
29 (Watts Direct Testimony March 23, 2005, pages 8-9 in Docket No.  
30 2005-2-E)  
31

32  
33 The reasoning of ORS Witness Watts is equally compelling in this proceeding. If  
34 the Commission chose to follow this recommendation, the average rate increase  
35 on industrials requested by SCE&G in this proceeding would fall to roughly 5.9%  
36 instead of the previously noted 7.9% increase that would result from granting the  
37 full rate increase request. In this period of difficult international competition for  
38 manufacturers, I believe this 2% savings on electric rates will help beleaguered  
39 manufacturers survive and keep our fellow Carolinians employed.  
40

1 **Q. DO YOU HAVE ANY FURTHER RECOMMENDATIONS TO THIS**  
2 **COMMISSION AS PART OF THIS PROCEEDING?**

3 A. Yes. Fuel rate increases are tough for manufacturers to absorb in their operating  
4 budgets. These cost increases are even more difficult to absorb when the  
5 manufacturer cannot budget for unpredictable cost increases. To assist  
6 manufacturers in preparing for these unanticipated cost fluctuations, I recommend  
7 that SCE&G be required to provide copies of monthly fuel reports filed with the  
8 Commission to SCEUC and all its large industrial consumers. Furthermore, I also  
9 recommend that SCE&G be required to provide to SCEUC and its large industrial  
10 consumers quarterly forecasts of its expected fuel factor for its next annual fuel  
11 proceeding.

12  
13 **Q. ARE THERE ANY PRECEDENTS FOR YOUR RECOMMENDATION**  
14 **THAT SCE&G PROVIDE MONTHLY FUEL REPORTS AND**  
15 **QUARTERLY FUEL FORECASTS?**

16 A. Yes. In Docket No. 2005-1-E, Carolina Power & Light (dba Progress Energy), by  
17 agreement, was ordered to provide monthly fuel reports and quarterly forecasts.  
18 Below is a statement from the settlement testimony of ORS Witness A.R. Watts:

19  
20 In an effort to keep the Parties and PEC's customers informed of  
21 the status of the Company's actual fuel cost recovery and  
22 forecasted fuel factor, PEC will provide to the South Carolina  
23 Energy Users Committee, Nucor Steel, and where applicable, its  
24 customers, copies of certain materials and information. PEC will  
25 provide copies of the monthly fuel reports currently filed with the  
26 PSC and the ORS and a quarterly forecast beginning October 1,  
27 2005, of the expected fuel factor to be set at its next annual fuel  
28 proceeding. (Watt Direct Testimony May 19, 2005, page 7)

29  
30 By similar agreement, Duke Power was also ordered to provide this same material  
31 in Docket No. 2005-3-E. The following statement appears on page 2 of the  
32 settlement agreement in that case.

33



1 As a compromise to the positions advanced by the ORS, SCEUC  
2 and Duke, all Parties agree to the proposal set out immediately  
3 below, and this proposal is hereby adopted, accepted, and  
4 acknowledged as the agreement of the Parties:

5  
6 The Parties agree that in an effort to keep the Parties and Duke  
7 customers informed of the over/under recovery balances related to  
8 fuel costs and of Duke's best efforts to forecast the expected fuel  
9 factor to be set at its next annual fuel proceeding, Duke will  
10 provide to SCEUC, and where applicable, its customers the  
11 following:

- 12  
13 (1) copies of the monthly fuel recovery reports currently filed with  
14 the PSC and with ORS; and  
15 (2) a quarterly forecast beginning February 15, 2006 of the  
16 expected fuel factor to be set at its next annual fuel proceeding  
17 based upon Duke's historical over/under recovery to date and  
18 Duke's forecast of prices for natural gas, coal, oil and other  
19 fuel required for generation of electricity. Duke will use its best  
20 efforts in making these forecasts. To the extent that the forecast  
21 data required hereunder is confidential, any party or customer  
22 that wants forecasted fuel data will have to sign a non-  
23 disclosure agreement agreeing to protect the data from public  
24 disclosure and to only disclose it to employees or agents with a  
25 need to know.  
26

27 **Q. DOES THIS COMPLETE YOUR TESTIMONY?**

28 **A.** Yes, it does.

ORIGINAL

## CERTIFICATE OF SERVICE

The undersigned employee of Elliott & Elliott, P.A. does hereby certify that (s)he has served below listed parties with a copy of the pleading(s) indicated below by mailing a copy of same to them in the United States mail, by regular mail, with sufficient postage affixed thereto and return address clearly marked on the date indicated below:

RE: South Carolina Electric & Gas Company Annual Review of Base Rates for Fuel Costs

DOCKET NO.: 2006-2-E

PARTIES SERVED:

Shannon B. Hudson, Esquire  
Office of Regulatory Staff  
1441 Main Street, Suite 300  
Columbia, SC 29201

Mitchell M. Willoughby, Esquire  
Willoughby & Hoefer, P.A.  
P. O. Box 8416  
Columbia, SC 29202

Belton T. Zeigler, Esquire  
Haynsworth Sinkler & Boyd, PA  
P. O. Box 11889  
Columbia, SC 29211

E. Wade Mullins, III, Esquire  
Bruner Powell Robbins Wall  
& Mullins. LLC  
P. O. Box 61110  
Columbia, SC 29260

Patricia B. Morrison, Esquire  
SCANA Services, Inc.  
Legal Department – 130  
Columbia, SC 29218

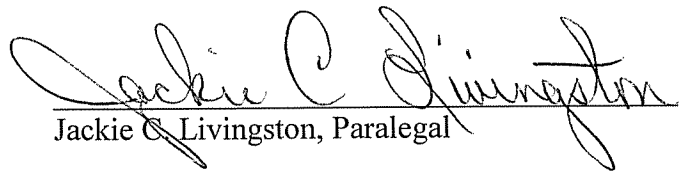
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Damon E. Xenopoulos, Esquire  
Brickfield Burchette Ritts & Stone, PC  
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8<sup>th</sup> Floor  
Washington, DC 20007

PLEADING:

DIRECT TESTIMONY OF KEVIN W. O'DONNELL

March 15, 2006



Jackie C. Livingston, Paralegal